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Review Finds Canada Pension Plan Is Financially Sound

Related document:

- Backgrounder

Federal and provincial Ministers of Finance, as joint stewards of the Canada Pension Plan (CPP), today announced the conclusion of their triennial financial review of the CPP.

The review confirms that the CPP is on sound financial footing. "Our analysis suggests that the 9.9 per cent contribution rate will be sufficient to sustain the Plan into the foreseeable future," stated the Honourable Jim Flaherty, Minister of Finance. "We have therefore agreed that the contribution rate will remain unchanged."

By providing over 3 million retired Canadians with maximum benefits of up to $844 per month, the CPP represents a key pillar of Canada's retirement income system. With assets projected to grow to $250 billion in the next 10 years, the Plan has been recognized internationally as an affordable model for securing adequate retirement income in the face of population aging and economic change.

"The successful completion of the CPP triennial review underlines our government's commitment to collaborative management in this key area of joint federal-provincial jurisdiction," added Minister Flaherty. "Retirement security is a vital element of independence for today's and tomorrow's seniors, and the measures proposed today will ensure that the CPP continues to address the needs of Canadians, while remaining affordable and fair for future generations."

As well, Finance Ministers commended the CPP Investment Board for signing the United Nations' Principles for Responsible Investing, which provide a best practice framework to help integrate consideration of environmental, social and governance factors into investor decision making.

Ministers also proposed changes to how the Plan operates. They include revising the CPP disability contributory requirements for Plan members with 25 or more years of contributions and operationalizing the existing requirement to fully fund CPP benefit enhancements. The proposed changes will require some legislative and regulatory changes by federal and provincial governments.

Ministers agreed to make best efforts to bring them into force as early as possible.

The attached backgrounder outlines the proposed changes.

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Backgrounder

Proposed Changes to the Canada Pension Plan

CPP Disability Benefits

Ministers agreed that contributors with a significant history of labour force attachment should receive some recognition for this when applying for CPP disability (CPPD) benefits. Specifically, Ministers propose that individuals with 25 or more years of contributions to the Plan meet the contributory requirement for CPPD with valid contributions in 3 of the last 6 years, instead of the current requirement of 4 of the last 6 years. Applicants will still have to meet existing disability criteria to qualify for the benefits. This measure will be effective for CPPD applications made after the coming into force of the legislative changes.

Financing Provisions

Ministers also agreed to take steps to enact the existing "full funding" provision that requires that any changes to the Plan's benefits be paid for in full so that their costs are not passed on to future generations. This provision has been part of the Plan since 1997, but has not yet been put into force through the necessary specific regulations. Ministers agreed that clarifying this provision would include enhanced reporting by the Chief Actuary of the full funding cost of new benefits or of benefit enrichments.

CPP Investment Board

In addition, Ministers reviewed the accountability and governance framework of the CPP Investment Board, including its code of conduct, conflict of interest and disclosure policies and practices, and concluded that they meet or exceed practices of public and private sector pension funds. Ministers also endorsed the CPP Investment Board's fiduciary investment mandate and its Policy on Responsible Investing adopted in October 2005. This policy underscores the CPP Investment Board's commitment to promote improved disclosure of, and performance on, the environmental, social and governance factors exhibited by the companies in which it invests. Underscoring this commitment, the CPP Investment Board signed the United Nations' Principles for Responsible Investing in April 2006.

The CPP Investment Board, which was established in 1998 to invest CPP contributions not immediately required to pay benefits, operates at arm's length from governments. The Investment Board has been praised by international bodies such as the World Bank as a model of an independent, transparent and accountable public pension fund for other countries to consider in reforming their public pension systems.

Further Work

Ministers agreed that they would continue, in the next review, to examine whether changes need to be made to the CPP to reflect the growing number of older Canadians who wish to remain active in the labour force. Ministers also agreed that creating an environment conducive to continued sustainable economic growth and rising living standards will be critical as Canada faces the challenges of an aging population.

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